

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-01 INR-10 IO-14 NEA-10 NSAE-00 ICA-20
OPIC-06 SP-02 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
DODE-00 PM-05 H-02 L-03 NSC-05 PA-02 ABF-01
FSE-00 SEC-01 /142 W
-----086690 112115Z /63

R 111907Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7565
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 06624

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS
(WEEK ENDING APRIL 10)

1. GUTH SAYS WAGE SETTLEMENTS AND DOLLAR DECLINE
UNDERMINE ECONOMIC POLICY:

GUTH OF DEUTSCHE BANK HAS EXPRESSED SURPRISE THAT THE
DOLLAR DECLINE WITH ITS DAMPENING EFFECTS ON GERMAN
EXPORTS HAD NOT BEEN CONSIDERED IN THE CONTEXT OF
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RECENT WAGE NEGOTIATIONS IN THE METAL INDUSTRY.
ACCORDING TO GUTH, RECENT WAGE SETTLEMENTS AND
THE MORE EXPENSIVE DEUTSCHEMARK HAVE PRACTICALLY
OFFSET THE GOVERNMENT'S SUBSTANTIAL
STIMULATION PROGRAMS WHICH AMOUNT TO A VOLUME OF ABOUT
DM 25 BILLION. GUTH SAID THAT THIS YEAR'S ECONOMIC
CALAMITY IS THAT, DESPITE SUBSTANTIAL DEFICIT

SPENDING OF ABOUT DM 60 BILLION, SELF-SUSTAINING
ECONOMIC PROGRESS CANNOT BE ACHIEVED DUE TO THE
DAMPENING EFFECTS OF THE DOLLAR DECLINE AND IMPROPER
POLICIES OF LABOR AND MANAGEMENT IN WAGE NEGOTIATIONS.

2. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD MARCH 24 TO 31 THE BUNDESBANK'S NET
FOREIGN POSITION INCREASED BY DM 0.1 BILLION TO
DM 92.8 BILLION. GERMANY'S IMF GOLD TRANCHE POSITION
DECLINED BY DM 41 MILLION, CLAIMS AGAINST THE
EUROPEAN FUND FOR MONETARY COOPERATION BY DM 59
MILLION AND FOREIGN LIABILITIES BY ABOUT DM 190 MILLION.
FOREIGN EXCHANGE HOLDINGS INCREASED BY ONLY
DM 5 MILLION.

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R 111907Z APR 78
FM AMEMBASSY BONN
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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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USEEC USOECD

3. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED CONSIDERABLY BY DM 9.3 BILLION. THE INCREASE BASICALLY REFLECTED SUBSTANTIAL END-OF-MONTH PAYMENTS BY PUBLIC AUTHORITIES RESULTING IN A DM 6.4 BILLION DECLINE IN ASSETS OF THE FEDERAL GOVERNMENT HELT AT THE BUNDESBANK AND IN A DM 2.6 BILLION DECLINE IN BUNDESBANK ASSETS OF STATE GOVERNMENTS. FURTHER FACTORS INCREASING LIQUIDITY WERE A DM 1.3 BILLION REDUCTION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK, THE ABOVE-MENTIONED SLIGHT INCREASE IN BUNDESBANK MONETARY RESERVES AND OTHER UNSPECIFIED UNCLASSIFIED

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FACTORS (DM 1.7 BILLION, NET). FACTORS REDUCING LIQUIDITY WERE THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 2.4 BILLION) AND DM 0.4 BILLION OF SALES OF MONEY MARKET PAPER BY THE BUNDESBANK.

THE BANKS USED THE SUBSTANTIAL LIQUIDITY INCREASE TO REDUCE LOMBARD BORROWINGS BY DM 9.2 BILLION (TO DM 1.9 BILLION) AND TO REDUCE NORMAL REDISCOUNT BORROWINGS BY DM 0.6 BILLION (TO DM 16.2 BILLION). AT THE SAME TIME SPECIAL REDISCOUNT BORROWINGS WERE INCREASED BY DM 0.5 BILLION (TO DM 4.4 BILLION).

4. FOREIGN EXCHANGE MARKETS:

DURING THE PERIOD UNDER REVIEW, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS	
	(IN DM PER \$1.--)			(IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
APR. 4	2.0080	2.0088	2.0195	-4.2	-4.2
5	2.0210	2.0250	2.0200	-3.5	-4.1
6	2.0160	2.0141	2.0160	-3.6	-4.1
7	2.0160	2.0190	2.0178	-3.6	-4.3
10	2.0220	2.0113	2.0060	-4.3	-4.2
11	2.0050	2.0100	N.A.	N.A.	N.A.

5. MONEY MARKET:

MONEY MARKET CONDITIONS REMAINED UNCHANGED DURING THE PERIOD. FROM APRIL 4 TO APRIL 10 FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

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CALL-MONEY ONE-MONTH THREE-MONTH

APR. 4 3.50-3.55 3.55 3.50
5 3.50-3.55 3.55 3.50
6 3.45-3.55 3.55 3.50
7 3.50-3.60 3.55 3.50
10 3.50-3.55 3.55 3.50

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DODE-00 PM-05 H-02 L-03 NSC-05 PA-02 ABF-01

FSE-00 SEC-01 /142 W

-----086821 112108Z /63

R 111907Z APR 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7567

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

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6. FEDERAL LOAN:

ON APRIL 13 THE FEDERAL GOVERNMENT WILL OFFER A DM
1.5 BILLION LOAN IN THREE TRANCHES. THIS WILL BE
THE FIRST FEDERAL LOAN OFFERED IN MORE THAN TWO
TRANCHES. EACH TRANCHE AMOUNTS TO DM 500 MILLION
OF WHICH DM 400 MILLION WILL BE OFFERED PUBLICLY

AND DM 100 MILLION WILL BE RETAINED FOR PRICE SUPPORTING
OPERATIONS BY THE BUNDESBANK. THE THREE TRANCHES
CARRY THE FOLLOWING CONDITIONS:

TRANCHE I: COUPON 5 PERCENT, ISSUE PRICE 100, MATURITY
6 YEARS; EFFECTIVE YIELD 5.00 PERCENT;

TRANCHE II: COUPON 5 1/4 PERCENT, ISSUE PRICE 99.50,
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MATURITY 8 YEARS, EFFECTIVE YIELD 5.33
PERCENT;

TRANCHE III: COUPON 5 3/4 PERCENT, ISSUE PRICE 100,
MATURITY 12 YEARS, EFFECTIVE YIELD
5.75 PERCENT.

7. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS TURNOVER WAS LOW WITH
PRICES REMAINING RATHER STABLE. ACCORDING TO THE PRESS,
AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN
BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY
(YEARS) 1 3 5 7 9 10

APRIL 7	3.75	4.65	5.05	5.50	5.80	5.90
MARCH 31	3.75	4.60	5.05	5.50	5.80	5.90

8. FOREIGN DM BONDS:

THE DM 200 MILLION LOAN OF MEXICO WILL BE OFFERED AT A
COUPON OF 6 PERCENT, AN ISSUE PRICE OF 100, AND A
MATURITY OF 7 YEARS NON-CALLABLE. THE KINGDOM OF
NORWAY WILL FLOAT A DM 250 MILLION LOAN (COUPON 4 3/8
PERCENT, ISSUE PRICE 100, MATURITY 5 YEARS NON-CALLABLE).
THE DM 200 MILLION LOAN OF SPAIN WILL CARRY A 6 PERCENT
COUPON AND A MATURITY OF 10 YEARS NON-CALLABLE. THE
DM 150 MILLION LOAN OF THE LIGHT SERVICOS ELECTRICIDADE
S.A., SAO PAULO, WILL HAVE A COUPON OF 6 3/4 PERCENT AND
A MATURITY OF 8 YEARS NON-CALLABLE, AND THE DM 100
MILLION LOAN OF THE ASIAN DEVELOPMENT BANK A 5 1/2
PERCENT COUPON AND A 10 YEAR MATURITY (NON-CALLABLE).

9. KLASSEN TO BOARD OF DIRECTORS OF DEUTSCHE BANK:
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THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT OF
THE DEUTSCHE BANK HAVE NOW FORMALLY NOMINATED FORMER
BUNDESBANK PRESIDENT KLASSEN FOR THE POSITION OF MEMBER

OF THE BOARD OF DIRECTORS OF THE DEUTSCHE BANK. ELECTIONS FOR DEUTSCHE BANK BOARD OF DIRECTORS WILL BE HELD AT THE COMING MAY 18 ANNUAL MEETING OF THE DEUTSCHE BANK. KLASSEN WAS ASSOCIATED WITH THE DEUTSCHE BANK FROM 1935 TO 1970. IN 1970 HE LEFT THE DEUTSCHE BANK TO BECOME PRESIDENT OF THE DEUTSCHE BUNDESBANK. ON MAY 31, 1977 KLASSEN HAD RESIGNED AS BUNDESBANK PRESIDENT.

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FSE-00 SEC-01 /142 W

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R 111907Z APR 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7568

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

UNEMPLOYMENT

1977 1978

NOV. DEC. JAN. FEB. MARCH

SEASONALLY ADJUSTED

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THOUSANDS	1,030	1,021	1,008	1,023	1,024
PCT. OF LABOR FORCE	4.5	4.5	4.4	4.5	4.5

NON-SEASONALLY ADJUSTED

THOUSANDS	1,004	1,091	1,213	1,224	1,099
PCT. OF LABOR FORCE	4.4	4.8	5.4	5.4	4.9

NOTE: PRELIMINARY FEBRUARY 1978 PRODUCTION DATA ARE
REPORTED BY SEPTTEL.

11. DEMANDS FOR TAX CUTS TO STIMULATE ECONOMIC ACTIVITY
MOUNT:

OPPOSITION SPOKESMEN HAVE RECENTLY REITERATED EARLIER
DEMANDS FOR TAX CUTS. RUDOLF SPRUNG, A FISCAL EXPERT
OF THE OPPOSITION, HAS COME OUT FOR A TEMPORARY 10 PER-
CENT INCOME TAX CUT UNDER THE PROVISIONS OF THE STABI-
LITY AND GROWTH LAW AND SUBSEQUENT REFORM OF THE PRESENT
INCOME TAX TARIFF. CDU/CSU TAX EXPERT HAEFELE
HAS COMMENTED ALONG THE SAME LINES. CDU'S RAINER BARZEL,
CHAIRMAN OF THE BUNDESTAG ECONOMIC COMMITTEE, HAS URGED
THE GOVERNMENT NOT TO WAIT UNTIL MAY BUT TO COME FORTH
WITH A "QUALITATIVE PROGRAM" NOW. IN HIS VIEW, SUCH A
PROGRAM SHOULD INCLUDE TAX RELIEF AND CURTAILMENT OF
POLITICAL, LEGAL AND ADMINISTRATIVE BARRIERS TO PUBLIC
AND PRIVATE SECTOR INVESTMENT PROJECTS. THE BONN
INSTITUTE FINANCE AND TAXES IN A RECENT STUDY CHARACTER-
IZED 1977 TAX RELIEF AS INADEQUATE TO BRING ABOUT
SUSTAINED GROWTH AND URGED ADDITIONAL MEASURES, PARTI-
CULARLY INVESTMENT INCENTIVES THROUGH MORE GENEROUS
DEPRECIATION ALLOWANCES, HIGHER BONUSES FOR CERTAIN
TYPES OF INVESTMENT AND REDUCTION OF TRADE TAXES. THE
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GOVERNMENT CONTINUES TO ARGUE THAT THE PUBLIC SECTOR
FINANCIAL SITUATION DOES NOT PERMIT FURTHER RELIEF AT
THIS TIME AND THAT ADDITIONAL TAX CUTS WOULD ENDANGER
THE REDUCTION OF DEFICITS ALSO DEMANDED BY THE OPPO-
SITION. ECONOMICS MINISTER LAMBSDORFF, IN A RECENT

PRESS INTERVIEW, REITERATED THAT FURTHER MEASURES TO
STIMULATE GROWTH ARE NOT POSSIBLE AND THAT IN HIS VIEW
TAX CUTS ARE NOT RELEVANT AT THE PRESENT TIME.
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Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING APRIL 10)
TAGS: ECON, EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c95120b3-c288-dd11-92da-001cc4696bcc
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